$	4,768,983	$	4,874,602	$	4,893,857	$	4,893,857	$	4,818,974
	1,275,495		1,264,451		1,264,451		1,263,714		1,674,802
	2,258,335		2,200,432		2,222,342		2,158,844		2,258,256
	4,254,220		3,269,240		3,351,078		3,231,871		4,870,191
	2,483,320		2,554,791		2,556,040		2,505,799		2,617,969
	4,798,519		4,666,207		4,666,207		4,666,207		4,779,552

Unfunded Liabilities

February 12, 2013

5,161,749	5,299,024	5,299,029	5,298,826	1,379,915
417,259	487,259	487,259	306,371	445,132
12,838,011	12,259,268	12,262,283	12,262,247	12,399,419
25,504,047	24,503,798	24,656,361	24,648,361	28,708,896
188,466,148	185,814,282	189,595,222	189,590,422	185,779,379
30,821,996	28,734,193	29,186,923	29,133,432	28,042,778

Defining The Issue

- Unfunded liabilities are costs for services already received, but not paid for by the City
- Pushes costs for current services into the future - can adversely impact future services and/or taxes
- Credit rating agencies have expressed concern - may impact credit ratings
- Workers' compensation, sick leave, retiree health insurance subsidy, and pensions

Long Beach Has Been Active in Addressing

- The City and its employee groups have been leaders in addressing pension issues
- Most governments have not been as proactive - many have unfunded liabilities with much larger problems than Long Beach
- But Long Beach still has significant issues with unfunded liabilities

“No Change” vs. “30-Year Pay-Down”

- Compares current funding practices (no change) with one that pays off unfunded liabilities in 30 years
- Compares annual costs now and annual costs and savings 30 years from now
- Any projection that goes out 30 years is problematic, but the differences between the options are likely to be meaningful

General Causes of Unfunded Liabilities

- Lower than projected investment earnings
- Benefit enhancements, often retroactive
- Underfunding

Options To Solve

All options are painful, either impacting City taxes, costs and services or employee benefits with potential recruitment and retention issues

- No change to current practices
- Pay down the unfunded liabilities
- Reduce the benefits (if possible)
- Some combination of increased payments and reduced benefits

Workers’ Compensation Liability

- Funds set aside for future costs of current claims are not adequate to pay those costs
- Causes
  - Benefit improvements and relaxed eligibility, including retroactively, by the State legislature
  - In the early 2000s, reducing funding for Workers’ Compensation to solve budget shortfalls in the General Fund
  - Inadequate funding
  - Cost of budgeting higher payments

Workers' Compensation Liability Pay-Off

Liability and Annual Cost Change with 30-Year Pay-Off

	Liability ($ m)		Annual Cost ($ m)			
			All Funds		General Fund	
	Now	30 Yrs	Now	30 Yrs	Now	30 Yrs
No Funding Change	101	168	26	47	17	30
Pay-off Liability in 30 years	97	5	29	43	19	28
Difference - Cost (Savings)		(163)	3	(4)	2	(3)

General Fund cost averages about $2 m per year for 30 years

Reducing Workers' Compensation Costs

Workers' Compensation costs have steadily grown as the State has increased benefits and has relaxed eligibility for claims

- Work to get State law changed to be less generous
- Review Long Beach experience and the associated cost factors and, as appropriate, aggressively address those factors
- A combination of above

Sick Leave Liability

- Unfunded cost of accumulated sick leave paid to retirees
- Causes
  - Lack of recognition (in past) of high cost
  - Historical underfunding
  - Cost of budgeting higher payments

Sick Leave Liability Pay-Off

Liability and Annual Cost Change with 30-Year Pay-Off

	Liability ($ m)		Annual Cost ($ m)			
			All Funds		General Fund	
	Now	30 Yrs	Now	30 Yrs	Now	30 Yrs
No Funding Change	124	225	8	33	4	18
Pay-off Liability in 30 years	100	0	10	9	5	5
Difference - Cost (Savings)		(225)	2	(24)	1	(13)

Savings start with pay-off option after 13 years

Reducing Sick Leave Costs

Sick leave payout at retirement is intended to discourage abuse of sick leave and to reduce impact of health insurance costs on early retirees

- Convert sick leave to dollars using earned salary rather than retirement salary
- Limit sick leave accumulation
- Convert less than 100% of sick leave
- Other benefit reductions
- A combination of above

Retiree Health Subsidy Liability

- Retirees pay the group rate for health insurance, but retiree health care costs substantially more than the group rate
- Cause
  - Probably not originally intended as a subsidy
  - Subsidy amount not known for years
  - Budgeting only about one-half the true annual cost
  - Cost of budgeting higher payments

Retiree Health Subsidy Liability Pay-Off

Liability and Annual Cost Change with 30-Year Pay-Off

	Liability ($ m)		Annual Cost ($ m)			
			All Funds		General Fund	
	Now	30 Yrs	Now	30 Yrs	Now	30 Yrs
No Funding Change	**239**	680	7	71	4	39
Pay-off Liability in 30 years	**185**	0	21	26	11	14
Difference - Cost (Savings)		(680)	14	(45)	8	(24)

Savings start with pay-off option after 18 years

Reducing Retiree Health Subsidy Costs

Allowing purchase of group health insurance by retirees was likely originally not intended to be a City cost or to be a subsidy

- Eliminate or reduce the subsidy (but could still allow purchase of City health insurance)
- Limit the time period of the subsidy
- A combination of above

Pension Liability

- Unfunded cost of pensions already earned by employees
- Causes
  - Optimistic assumptions, primarily high investment returns
  - Benefit increases, particularly retroactive ones
  - Skipped employee and employer contributions as allowed by CalPERS (when "superfunded")
  - Difficulty in reducing benefits
  - Cost of budgeting higher payments

Pension Liability Pay-Off

Liability and Annual Cost Change with 30-Year Pay-Off

	Liability ($ m)		Annual Cost ($ m)			
			All Funds		General Fund	
	Now	30 Yrs	Now	30 Yrs	Now	30 Yrs
No Funding Change	700	3,400	70	226	37	119
Pay-off Liability in 30 years	900	0	103	92	54	48
Difference - Cost (Savings)		(3,400)	33	(134)	17	(71)

General Fund cost averages about $25 m per year for 30 years

Reducing Pension Costs

City share of pension costs envisioned at 8% or 9% of payroll (or lower), could grow to 25% to 40% of payroll

- Reduce benefits for new employees (no impact for years)
- Reduce (unearned) future benefits for current employees (if possible)
- Higher employee contributions
- A combination of above

Summary of Cost Savings with 30 Year Funding

General Fund Cost (Savings) From 30-Year Funding of Liabilities

General Fund $ in millions			
	1st Yr Cost	Savings After 30th Yr	Savings After 30th Yr in Today's Dollars
Workers' Compensation	2	(3)	(1)
Sick Leave*	1	(13)	(6)
Retiree Health Subsidy**	8	(24)	(11)
Pension	17	(71)	(31)
TOTAL	28	(111)	(49)

* Savings begin after 13 years

** Savings begin after 18 years

Summary of Cost Savings with 30 Year Funding

All Funds Cost (Savings) From 30-Year Funding of Liabilities

All Funds $ in millions			
	1st Yr Cost	Savings After 30st Yr	Savings After 30th Yr in Today's Dollars
Workers' Compensation	3	(4)	(2)
Sick Leave*	2	(24)	(11)
Retiree Health Subsidy**	14	(45)	(20)
Pension	33	(134)	(59)
TOTAL	52	(207)	(92)

* Savings begin after 13 years

** Savings begin after 18 years

Suggested Options

- **Workers' Compensation:** increase funding, focus on controlling and managing cost factors, work to influence State legislature to manage benefit levels, a combination
- **Sick leave:** Increase funding, reduce the benefit, a combination
- **Retiree Health Subsidy:** Increase funding, reduce or eliminate the subsidy, a combination
- **Pension:** Self-impose a higher contribution rate, benefit reductions (if possible), a combination

Other Long-Term "Liabilities"

The following additional unfunded liabilities are beyond the scope of this report

- Deferred maintenance on buildings, roads, bridges and other infrastructure
- Deferred replacements and upgrades of systems hardware and software
- Deferred funding for vehicle replacement
- Self-insured liability costs
- Deferred investment in employee training and skill development

Next Steps

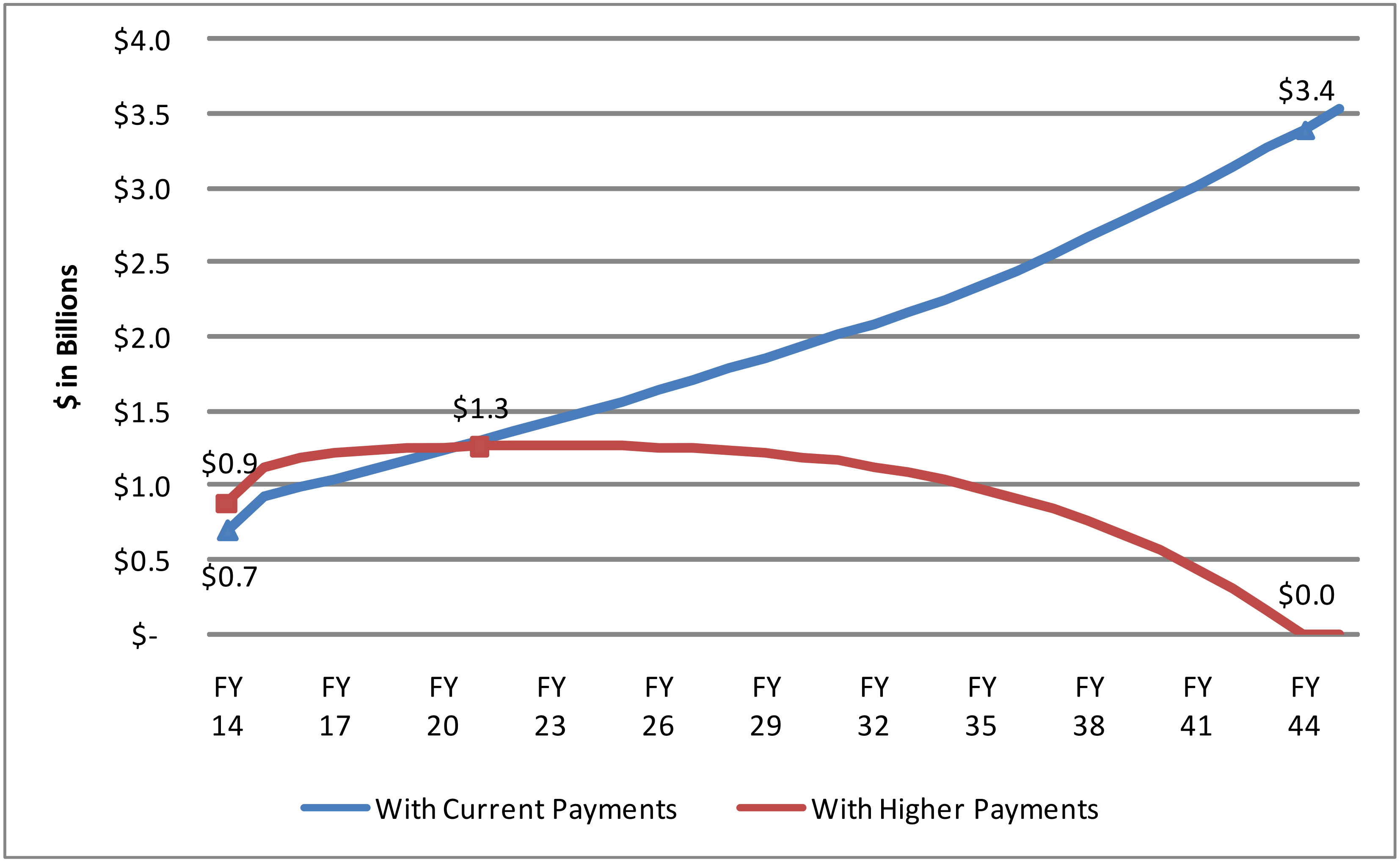
- Staff will continue to review unfunded liabilities for ways to address
- Staff will report back on infrastructure unfunded liabilities
- A March 5, 2013 presentation on the need for new financial/HR systems
- Staff will continue to look at options to include additional funding in the budget

Unfunded Liabilities

Pension Liability

Projected CalPERS Liability

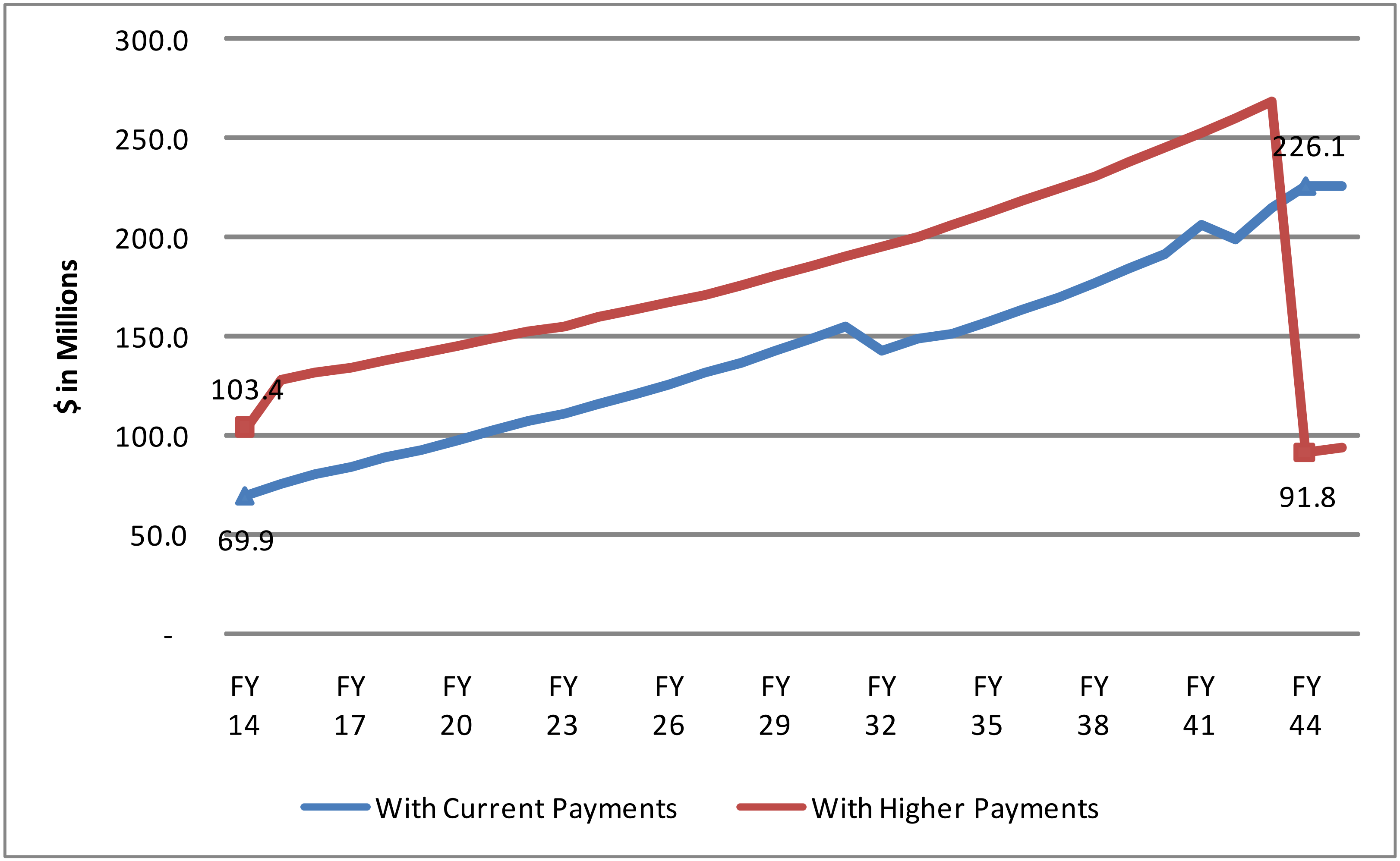
Standard payments vs. higher payments that eliminate liability in 30 years



Pension Annual Payments

Projected CalPERS Payments

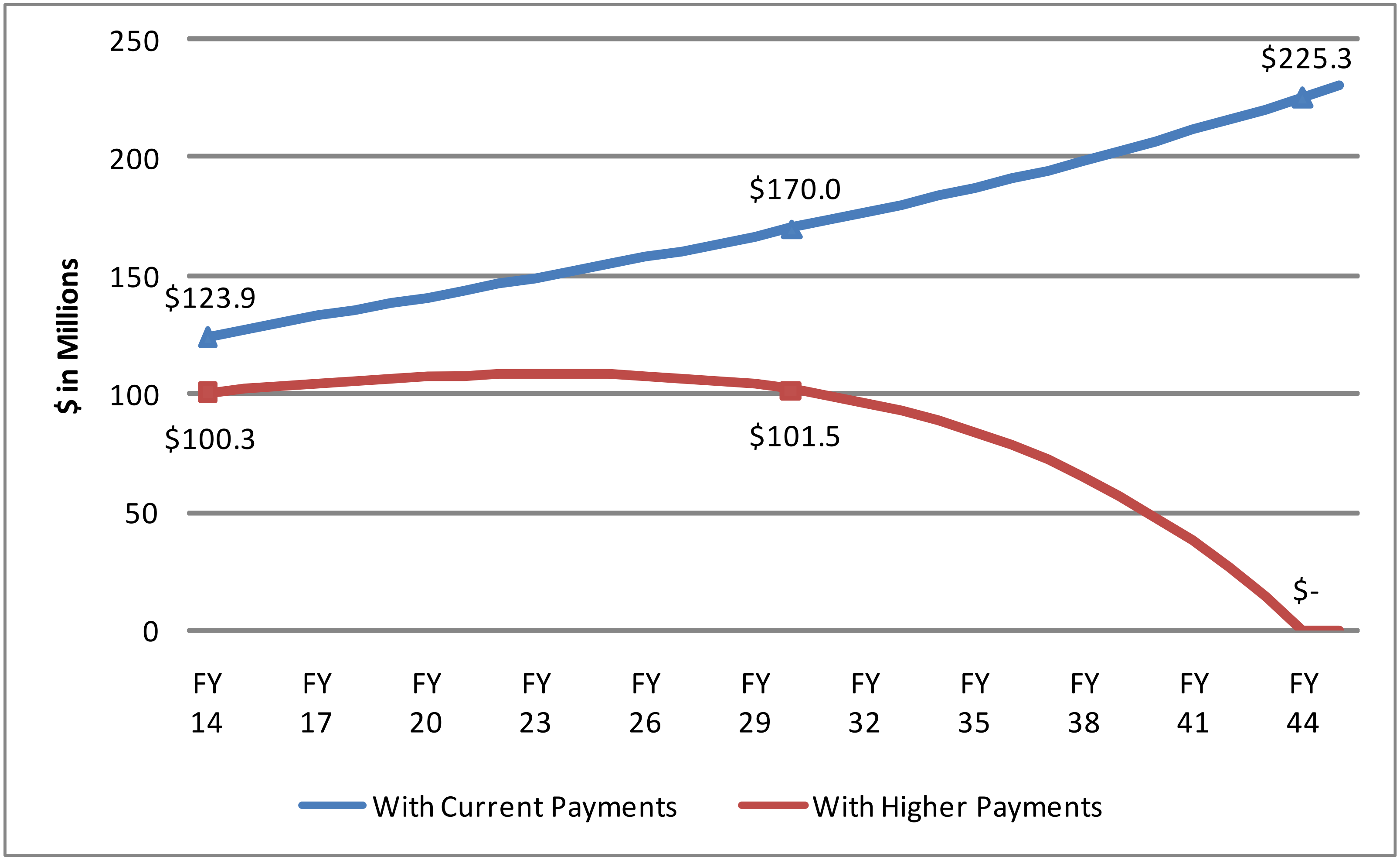
Standard payments vs. higher payments that eliminate liability in 30 years



Sick Leave Liability

Projected Sick Leave Liability

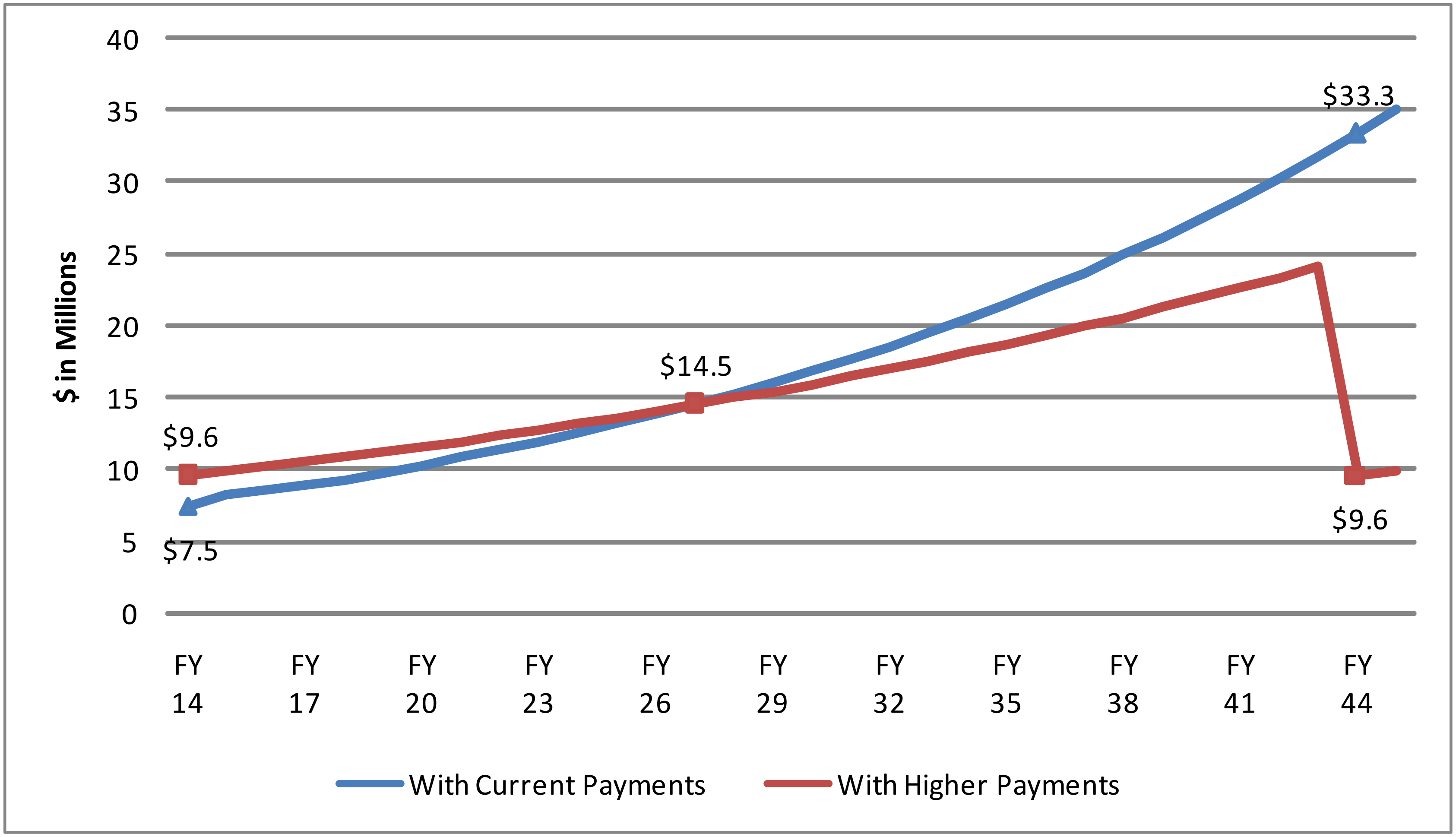
Standard payments vs. higher payments that eliminate liability in 30 years



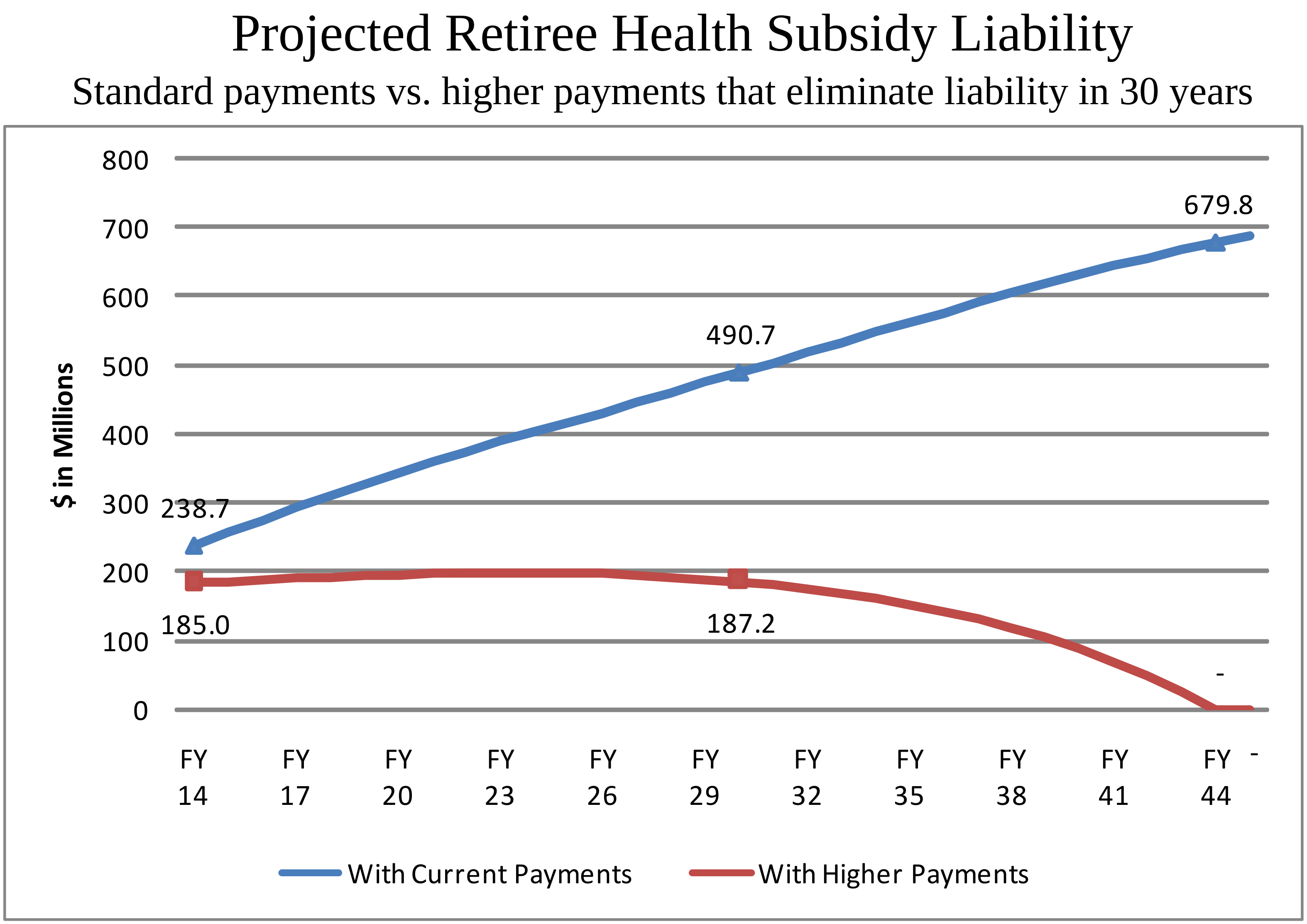
Sick Leave Annual Payments

Projected Sick Leave Payments

Standard payments vs. higher payments that eliminate liability in 30 years



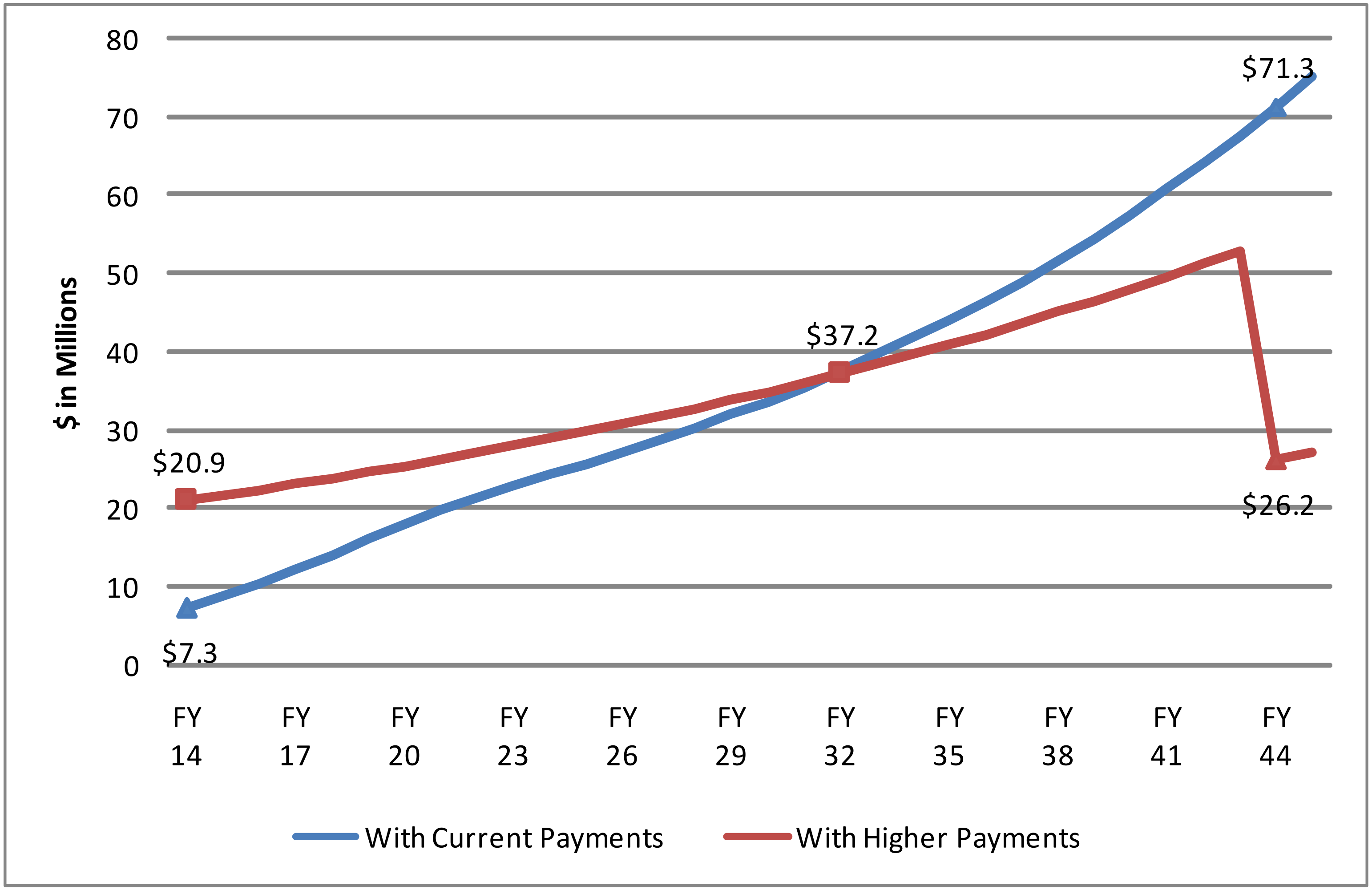
Retiree Health Subsidy Liability



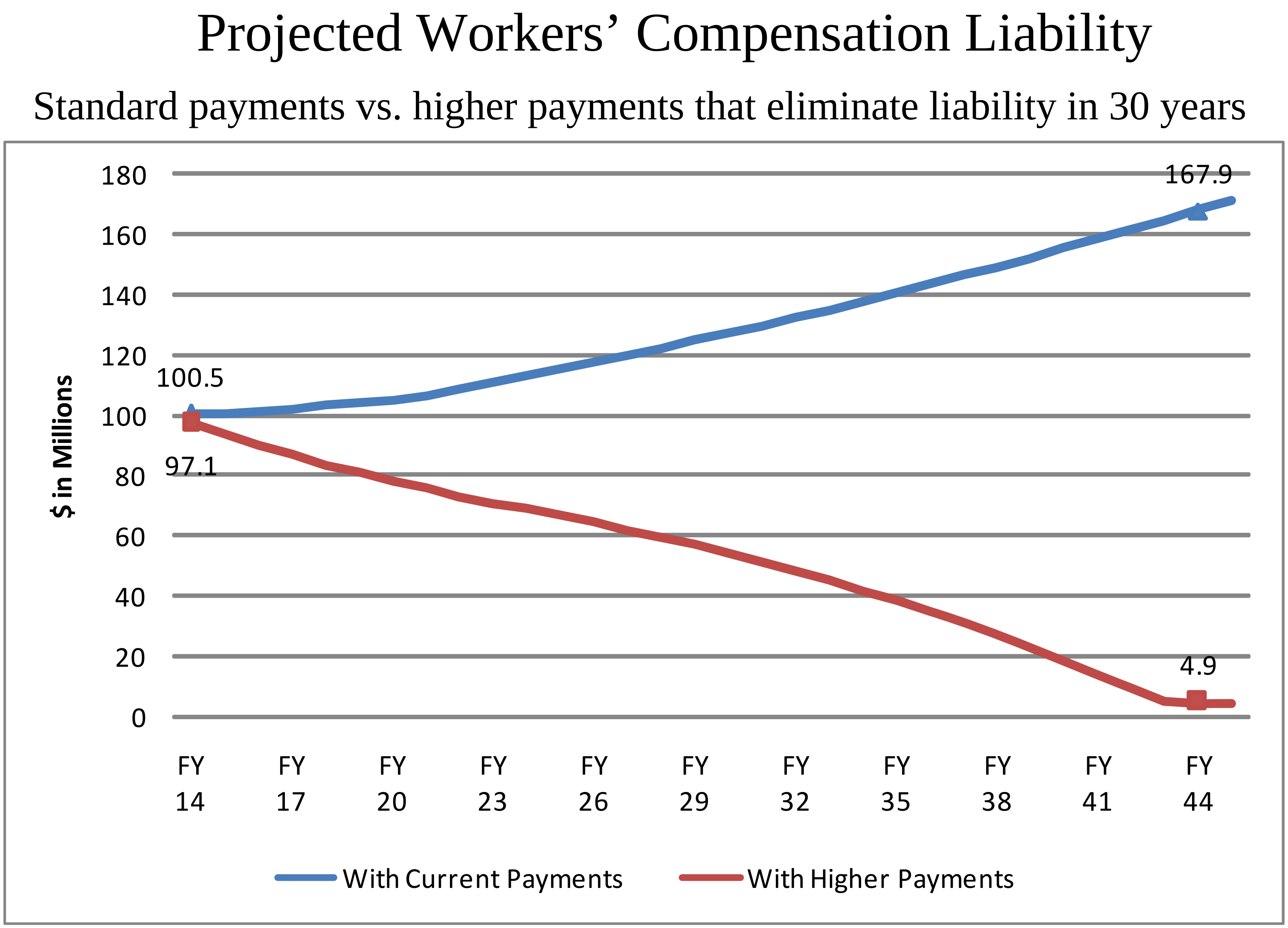
Retiree Health Subsidy Annual Payments

Projected Retiree Health Subsidy Payments

Standard payments vs. higher payments that eliminate liability in 30 years



Workers' Compensation Leave Liability



Workers' Compensation Annual Payments

Projected Workers' Compensation Payments

Standard payments vs. higher payments that eliminate liability in 30 years